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CIA/DER/S-06249-74

MEMORANDUM FOR: Mr. Richard Christensen
INR/RES/EE
Rm. 7813
State Department

SUBJECT: Update on Romanian Balance of Payments

Enclosed is the update on the Romanian balance of payments situation requested by you.

If we can supply additional information please feel free to call.

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21 June 1974
(DATE)

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CONFIDENTIALRomania: Prospects for the 1974 Balance of Payments

Romania's ambitious foreign trade plan is in trouble, but a balance of payments crunch this year is unlikely. The planned 76% increase in exports to the West will be underfulfilled. Contracts signed last year, however, will keep hard currency imports high. At this point, there are some signs that Ceausescu has ordered cutbacks in future import commitments.

Romania's hard currency deficit in 1973 was over \$280 million even though exports to the West were up 35%. The effects of high world prices for Romania's oil and farm products were more than offset by Romania's growing appetite for Western machinery. As a consequence, Romanian medium- and long-term hard currency debt increased to between \$1.5 billion and \$1.8 billion in 1973. The cumulative deficit since 1960 has amounted to over \$2 billion.

Financing the trade deficit has not been much of a problem, despite a debt service ratio of almost 40%. Tourist earnings, now about \$40 million per year, helped somewhat. Mostly, Bucharest has drawn heavily on Western credits. Last year, for the first time, Romania looked to the US for sizeable credits. The Export-Import Bank

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authorized about \$50 million, although only about \$10 million has actually been drawn. Private US banks established credit lines of at least \$50 million.

By recently joining the World Bank and the IMF, Romania has added to its sources of credit. The World Bank granted Romania two long-term development loans. Bucharest drew over \$100 million in hard currency from the IMF; Romania has now reached the limit of its SDR authorization. In justifying the quick draw down, Romanian officials told the IMF that a bulge in scheduled debt repayments in 1973 and 1974 is causing a short-term hard currency crunch.

Problems with this year's export plan stem from a drought in agriculture and a lagging industrial sector. Ceausescu had hoped for a 23% increase in total agricultural production. Current projections are for the bread grain crop to be slightly lower than last year, despite expanded acreage. Exports of farm products, therefore, probably will be no larger than last year. For the first five months of this year industrial output grew about 15%; the plan was for 16.7%. Any set-back in industrial production would seriously hinder Ceausescu's drive to expand industrial exports.

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Ceausescu has threatened before to ration imports but has taken only a few steps in this direction. The recent tariff increases should have only a minor effect. It has been some time since a major contract has been signed to purchase Western goods, however. It does seem that major deals, such as the negotiations to buy helicopters from the US or France, are being delayed. Uncertainty over the details of next year's plan, not to mention the lines for the 1976-80 period, may have contributed to a sluggishness in making new commitments for Western machinery.

Nonetheless, imports from the West -- and the hard currency deficit -- should continue to grow throughout the year, due mainly to contracts signed in 1973. Trade figures on US exports to Romania will be particularly large as a result of contracted deliveries such as the Boeing Aircraft. A rough estimate of Romania's deficit for 1974 puts it close to the 1973 figure of \$280 million. For the most part financing has already been arranged

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